

## Message Text

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ACTION NEA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 SS-15 NSC-05 DODE-00 PA-01

USIA-06 PRS-01 AGR-05 INT-05 OES-03 FEAE-00 STR-04

CEA-01 /092 W

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R 301010Z APR 75

FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 1553

INFO AMEMBASSY NEW DELHI

AMCONSUL CALCUTTA

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E.O. 11652: N/A

TAGS: PFOR, NP, IN

SUBJ: INDO-NEPALESE RELATIONS

REF: KATHMANDU 1882

1. INDIAN AMBASSADOR RASGOTRA TOLD DCM APRIL 28 THAT THE GOI HAD NO INTENTION OF MODIFYING ITS DECISION TO RAISE PRICES CHARGED TO NEPAL FOR ESSENTIAL COMMODITIES. BASGOTRA SAID THAT HE HAD RECOMMENDED THAT GOI NOT EVEN REPLY TO NEPALESE PROTEST NOTE REPORTED REFTEL. ACCORDING TO RASGOTRA GON HAD BEEN INFORMED AS EARLY AS LAST DECEMBER THAT PRICES ON MANY COMMODITIES WOULD BE RAISED AT END OF INDIAN FISCAL YEAR (MARCH 31, 1975) AND NEPALESE TRADERS HAD HAD SUFFICIENT TIME TO ADJUST TO NEW SITUATION. IF INDIAN DECISION POSED HARDSHIP FOR NEPAL, RASGOTRA SAID THERE WERE OTHER AVENUES FOR RELIEF. HE HAD SUGGESTED TO PRIME MINISTER RIJAL, FINANCE MINISTER THAPA AND FOREIGN LIMITED OFFICIAL USE

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OFFICE OFFICIALS THAT NEPAL LOOK TO OTHER FINANCIAL

MECHANISMS TO HELP WITH BURDEN IMPOSED BY PRICE INCREASE. SUCH ASSISTANCE, WHICH INDIANS WOULD WILLINGLY CONSIDER, MIGHT INCLUDE COMMODITY AID, CREDIT FACILITIES OR ADDITIONAL SPECIAL DRAWING RIGHTS IN NEW DELHI. TO DATE THE NEPALESE HAD NOT DISCUSSED ALTERNATIVES AND INSTEAD WERE STICKING TO LEGALISTIC ARGUMENTS SET FORTH IN RECENT NOTE. RASGOTRA SAID THAT AT NEW DELHI JRC MEETINGS NEPALESE COMMERCE SECRETARY DAS HAD REFUSED "ON INSTRUCTIONS" TO DISCUSS PRICE ISSUE AND GOI HAD CONSEQUENTLY SENT FORMAL NOTE TO NEPALESE.

2. RASGOTRA ALSO ASSERTED THAT GON WAS GAINING SIGNIFICANT BENEFIT FROM RICE EXPORTS TO INDIA. VIRTUALLY ALL RICE EXPORTS ARE NOW GOING TO KERALA AT RS 350 PER QUINTAL. THIS PRICE COMPARED WITH RS 150 TO 180 PER QUINTAL IN NEIGHBORING BIHAR. THE OVERALL BENEFIT TO NEPAL WAS ON THE ORDER OF RS 5 CRORE PER ANNUM WHICH SHOULD OFFSET IMPACT OF INCREASED COAL, CEMENT AND STEEL PRICES.

3. REVIEWING GENERAL STATE OF INDO-NEPAL RELATIONS, RASGOTRA SAID THEY WERE NOW QUITE GOOD AND CERTAINLY IMPROVED FROM LAST SUMMER. INDIA, HE INSISTED, WANTED A NORMAL BILATERAL RELATIONSHIP WITH NEPAL, NO DIFFERENT FROM THAT WITH OTHER NEIGHBORING COUNTRIES. INDIA HAD NO DESIGNS ON NEPJB NOR ANY INTENTION TO INTERFERE IN ITS INTERNAL AFFAIRS. THE PRICING DECISION WAS THE LOGICAL RESULT OF THIS POLICY AND THE FACT THAT INDIAN TAXPAYERS WERE NO LONGER WILLING TO SUBSIDIZE NEPAL'S TRADE. RASGOTRA REITERATED INDIA'S WILLINGNESS TO DISCUSS ALTERNATE ARRANGEMENTS AND ADDED RUEFULLY THAT GON OFFICIALS STILL SEEMED UNWILLING TO NEGOTIATE SERIOUSLY.

4. WITH REGARD TO SINO-NEPALESE RELATIONS RASGOTRA EXPRESSED LITTLE CONCERN. HE SAID THAT ONLY IF CHINA CAME TO DOMINATE NEPAL WOULD THE GOI BE SERIOUSLY WORRIED. THIS HE DID NOT THINK LIKELY UNDER PRESENT CONDITIONS.

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5. COMMENT: RASGOTRA'S VIEWS ARE BROADLY CONSISTENT WITH OTHER READINGS WE GET OF GOI POLICY ALTHOUGH SENIOR GON OFFICIALS STILL SEEM HOPEFUL THAT INDIANS WILL RELENT ON COMMODITY PRICING.S ON ISSUES WHERE INDIAN INTERESTS ARE DIRECTLY INVOLVED OR WHERE THEY ARE PUBLICLY COMMITTED TO A COURSE OF ACTION, THEY CONTINUE TO TAKE A FIRM STAND. HOWEVER, THEY CAN ALSO APPEAR TO BE CONCILIATORY BY OFFERING TO NEGOTIATE

DIFFERENCES AND TO PROVIDE ALTERNATE MECHNISMS FOR ECONOMIC AID. RASTRA BANK GOVERNOR SHARMA RECENTLY TOLD DCM THAT GON WAS PROBABLY GOING TO ASK INDIA FOR ADDITIONAL RUPEE RESOURCES THROUGH SPECIAL DRAWING RIGHTS IN NEW DELHI. HE CONFIRMED THAT NEPAL WAS BEING PERMITTED TO SELL GRAIN TO KERALA AT HIGHER PRICES BUT ADDED THAT THE GOI WAS INSISTING ON LIMITING INDIVIDUAL SHIPMENTS TO 500 TONS THEREBY MAXIMIZING DIFFICULTIES OF SHIPMENT. (WE ALSO UNDERSTAND FROM CUSTOMS OFFICIALS THAT NEPAL DOES NOT FULLY BENEFIT FROM HIGH PRICES OF KERALA RICE BECAUSE OF STATE TAXES WHICH NEPAL HAS TO PAY ON RICE AS IT TRANSITS INDIA.) SHARMA COMMENTED THAT EVEN WHEN THE INDIANS DID MAKE CONCESSIONS TO NEPAL, AS IN THE CASE OF RICE EXPORTS, THEY GAVE THE IMPRESSION OF DOING SO RELUCTANTLY AND WITH ILL GRACE. IN SUM, WE CONCLUDE THAT IN ONE WAY OR ANOTHER ECONOMIC DIFFERENCES WILL BE RESOLVED, BUT THAT MISUNDERSTANDINGS AND SUSPICIONS WILL REMAIN AND THE OVERALL STATE OF BILATERAL INDO-NEPALESE RELATIONS WILL IMPROVE BUT SLOWLY. CARGO

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